**TENNESSEE GENERAL ASSEMBLY**
**FISCAL REVIEW COMMITTEE**

# FISCAL NOTE

## HB 136 - SB 315

February 12, 2017

**SUMMARY OF BILL:** Requires local governments with one or more audit findings to submit a corrective action plan to the Comptroller of the Treasury (COT) addressing each finding. Requires local governments with one or more audit findings to submit a copy of their annual budget to COT for approval and authorizes COT to not approve a local government's budget until a corrective action plan has been submitted. Authorizes COT and the Department of Revenue (DOR) to withhold sales tax revenue, collected and otherwise distributed to locals by the state, from any local government with uncorrected, recurring audit findings for three or more consecutive years. Requires DOR to hold such tax revenue in reserve until the non-compliant local government becomes compliant with this proposed legislation.

## ESTIMATED FISCAL IMPACT:

**Other Fiscal Impact – The fiscal impact of this bill is a potential temporary loss of use of an unknown but significant amount of sales tax revenue for any local government entity out of compliance with this legislation. Otherwise, any fiscal impact for state and local government is considered not significant.**

Assumptions:

- According to COT, the administrative procedures required by the bill can be accomplished within existing resources and will not result in any significant fiscal impact to state government.
- According to DOR, reducing sales tax revenues to a local government will require some changes to the tax collection system; however, such changes are covered by the system's maintenance agreement and will not result in any significant fiscal impact to state government.
- Requiring local governments with one or more audit findings to submit a corrective action plan to address each audit finding will not result in any significant increase to local government expenditures.
- Any local government whose budget is not approved by the Comptroller until submitting a corrective action plan will do so without any significant increase to local government expenditures.
- COT and DOR may reduce the distribution of sales tax collections, which are collected and otherwise distributed to locals by the state, by up to 15 percent, and withhold such revenue in reserve until the non-compliant local government becomes compliant with this proposed legislation.

- Pursuant to Section 1(d) of this bill, COT will be authorized to use discretion with regards to not approving a non-compliant local government's budget and withholding of sales tax revenue. It is unknown how many local governments will receive uncorrected audit findings for three or more consecutive years; if COT and DOR will opt to reduce sales tax revenue applicable to any non-compliant local government; the extent of any revenue reduction; and the length of time the revenue reduction will be withheld from the local government.
- To the extent a local government is penalized by the withholding of sales tax revenue, the impact to a local government will be significant; however, due to the fact any penalized local government will ultimately receive the withheld revenue, the fiscal impact to local government is considered not significant.

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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